

**REPORT OF THE AUDIT OF THE  
MONROE COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robert M. Burnside, Secretary

Finance and Administration Cabinet

Honorable Wilbur Graves, Monroe County Judge/Executive

Members of the Monroe County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Monroe County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements.

We engaged Ross & Company, PLLC, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Ross & Company, PLLC, evaluated the Monroe County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MONROE COUNTY FISCAL COURT**

**June 30, 2006**

Ross & Company, PLLC has completed the audit of the Monroe County Fiscal Court for fiscal year ended June 30, 2006. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Monroe County, Kentucky.

#### **Financial Condition:**

The fiscal court had total net assets of \$4,855,368 as of June 30, 2006. The fiscal court had unrestricted net assets of \$534,069 in its governmental activities as of June 30, 2006, with total net assets of \$4,830,408. In its business-type activities, cash, and cash equivalents were \$4,984, with total net assets of \$24,960. The fiscal court's discretely presented component unit had net assets of \$465 as of June 30, 2006, with cash and cash equivalents of \$551. The fiscal court had total debt principal as of June 30, 2006 of \$8,046 with \$8,046 due within the next year.

#### **Report Comments:**

- |         |  |
|---------|--|
| 2006-01 | The Fiscal Court Should Improve Purchase And Procurement Procedures  |
| 2006-02 | The Fiscal Court Should Properly Report Encumbrances   |
| 2006-03 | The Fiscal Court Should Annually Review The Administrative Code And Make Any Changes Or Revisions Deemed Necessary |

#### **Deposits:**

The fiscal court and component unit's deposits were insured and collateralized by bank securities.



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**ROSS & COMPANY, PLLC**  
**Certified Public Accountants**  
**800 Envoy Circle**  
**Louisville, KY 40299**  
**Telephone (502) 499-9088**  
**Facsimile (502) 499-9132**  
**www.rosscpas.com**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robert M. Burnside, Secretary  
Finance and Administration Cabinet  
Honorable Wilbur Graves, Monroe County Judge/Executive  
Members of the Monroe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Monroe County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Monroe County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Monroe County Recreation, Tourist, and Convention Commission, a discretely presented component unit, which represents 6% and 21%, respectively of the assets and revenues of the aggregate discretely presented component unit and remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Monroe County Recreation, Tourist, and Convention Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

As described in Note 1, Monroe County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Monroe County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robert M. Burnside, Secretary  
Finance and Administration Cabinet  
Honorable Wilbur Graves, Monroe County Judge/Executive  
Members of the Monroe County Fiscal Court

The county has not presented the management's discussion and analysis that the Government Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Monroe County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 21, 2007 on our consideration of Monroe County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2006-01 The Fiscal Court Should Improve Purchase And Procurement Procedures
- 2006-02 The Fiscal Court Should Properly Report Encumbrances
- 2006-03 The Fiscal Court Should Annually Review The Administrative Code And Make Any Changes Or Revisions Deemed Necessary

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC  
Certified Public Accountants

June 21, 2007

MONROE COUNTY OFFICIALS

For The Year Ended June 30, 2006

**Fiscal Court Members:**

Wilbur Graves	County Judge/Executive
Danny Burgess	Magistrate
Roger Turner	Magistrate
Sam Maxie Harlan	Magistrate
Tommy Page	Magistrate
Jeff Profitt	Magistrate

**Other Elected Officials:**

Wesley Stephens	County Attorney
Freddie Kirkpatrick	Jailer
Teresa Sheffield	County Clerk
Joyce Emberton	Circuit Court Clerk
Jerry Gee	Sheriff
Louis Carter	Property Valuation Administrator
Jackie Walden	Coroner

**Appointed Personnel:**

Sheryl Conkin	County Treasurer
Cathy Page	Occupational Tax Collector

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**MONROE COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2006**



**MONROE COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2006**

	<u>Primary Government</u>			<b>Component Unit - Monroe County Recreation, Tourist, and Convention Commission</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>	
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 534,069	\$ 4,984	\$ 539,053	\$ 551
Accounts Receivable				908
Total Current Assets	<u>534,069</u>	<u>4,984</u>	<u>539,053</u>	<u>1,459</u>
Noncurrent Assets:				
Capital Assets - Net of Accumulated Depreciation				
Land and Land Improvements	39,200		39,200	
Buildings	1,360,177		1,360,177	
Other Equipment	255,395		255,395	
Vehicles and Equipment	205,559	19,976	225,535	
Infrastructure Assets - Net of Depreciation	<u>2,444,054</u>		<u>2,444,054</u>	
Total Noncurrent Assets	<u>4,304,385</u>	<u>19,976</u>	<u>4,324,361</u>	
Total Assets	<u>4,838,454</u>	<u>24,960</u>	<u>4,863,414</u>	<u>1,459</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Financing Obligation Payable	8,046		8,046	
Accounts Payable				994
Total Current Liabilities	<u>8,046</u>		<u>8,046</u>	<u>994</u>
Total Liabilities	<u>8,046</u>		<u>8,046</u>	<u>994</u>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	4,296,339	19,976	4,316,315	
Unrestricted	<u>534,069</u>	<u>4,984</u>	<u>539,053</u>	<u>465</u>
Total Net Assets	<u>\$ 4,830,408</u>	<u>\$ 24,960</u>	<u>\$ 4,855,368</u>	<u>\$ 465</u>

The accompanying notes are an integral part of the financial statements.

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**MONROE COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2006**

**MONROE COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

<b>Functions/Programs Reporting Entity</b>	<b>Expenses</b>	<b>Program Revenues Received</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary Government:</b>				
Governmental Activities:				
General Government	\$ 1,112,968	\$ 15,620	\$ 306,593	\$
Protection to Persons and Property	576,807	11,977	131,828	
General Health and Sanitation	224,685		50,000	
Social Services	7,557			
Recreation and Culture	10,804			150,000
Roads	706,464		1,170,695	652,906
Airports	3,000			
Capital Projects	82,397			
Total Governmental Activities	<u>2,724,682</u>	<u>27,597</u>	<u>1,659,116</u>	<u>802,906</u>
Business-type Activities:				
Jail Canteen	29,541	32,714		
Total Business-type Activities	<u>29,541</u>	<u>32,714</u>		
Total Primary Government	<u>\$ 2,754,223</u>	<u>\$ 60,311</u>	<u>\$ 1,659,116</u>	<u>\$ 802,906</u>
<b>Component Units:</b>				
Monroe County Recreation, Tourist, and Convention Commission	<u>\$ 13,463</u>			

**General Revenues:**

Taxes:  
     Real Property Taxes  
     Personal Property Taxes  
     Motor Vehicle Taxes  
     Other Taxes  
 Excess Fees  
 Miscellaneous Revenues  
 Interest Income  
     Total General Revenues  
     Change in Net Assets  
 Net Assets - Beginning (Restated)  
  
 Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

**MONROE COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2006**  
**(Continued)**

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			Component Unit - Monroe County Recreation, Tourist, and Convention Commission
Governmental Activities	Business-Type Activities	Totals	
\$ (790,755)	\$	\$ (790,755)	\$
(433,002)		(433,002)	
(174,685)		(174,685)	
(7,557)		(7,557)	
139,196		139,196	
1,117,137		1,117,137	
(3,000)		(3,000)	
(82,397)		(82,397)	
(235,063)		(235,063)	
	3,173	3,173	
	3,173	3,173	
(235,063)	3,173	(231,890)	
			(13,463)
200,388		200,388	
24,543		24,543	
52,649		52,649	
680,181		680,181	10,367
23,849		23,849	
61,258		61,258	2,972
25,900		25,900	12
1,068,768		1,068,768	13,351
833,705	3,173	836,878	(112)
3,996,703	21,787	4,018,490	577
\$ 4,830,408	\$ 24,960	\$ 4,855,368	\$ 465

The accompanying notes are an integral part of the financial statements.

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**MONROE COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2006**



**MONROE COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2006**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 365,360	\$ 125,695	\$ 21,171	\$ 21,843	\$ 534,069
Total Assets	<u>\$ 365,360</u>	<u>\$ 125,695</u>	<u>\$ 21,171</u>	<u>\$ 21,843</u>	<u>\$ 534,069</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	\$ 7,300	\$ 11,540	\$ 3,700		\$ 22,540
Unreserved:					
General Fund	358,060				358,060
Special Revenue Funds		114,155	17,471	21,843	153,469
Total Fund Balances	<u>\$ 365,360</u>	<u>\$ 125,695</u>	<u>\$ 21,171</u>	<u>\$ 21,843</u>	<u>\$ 534,069</u>

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 534,069
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	6,419,639
Accumulated Depreciation	(2,115,254)
Debt Not Due and Payable in the Current Period and, Therefore, Is Not	
Reported in the Funds.	
Financing Obligation	<u>(8,046)</u>
Net Assets Of Governmental Activities	<u>\$ 4,830,408</u>

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**MONROE COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

**MONROE COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Non- Major Funds</b>
<b>REVENUES</b>				
Taxes	\$ 899,909	\$	\$	\$
In Lieu Tax Payments	44,902			
Excess Fees	23,849			
Licenses and Permits	15,620			
Intergovernmental	562,344	1,622,806	108,296	23,322
Charges for Services	2,450		9,527	
Miscellaneous	161,754	24,128	7,606	25,974
Interest	9,892	14,481	1,294	233
Total Revenues	<u>1,720,720</u>	<u>1,661,415</u>	<u>126,723</u>	<u>49,529</u>
<b>EXPENDITURES</b>				
General Government	718,020			11,000
Protection to Persons and Property	135,155		385,449	54,179
General Health and Sanitation	224,685			
Social Services	2,801			
Recreation and Culture	10,804			
Roads		1,775,452		
Airports	3,000			
Capital Projects		82,397		
Administration	369,719	43,180	36,237	
Total Expenditures	<u>1,464,184</u>	<u>1,901,029</u>	<u>421,686</u>	<u>65,179</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>256,536</u>	<u>(239,614)</u>	<u>(294,963)</u>	<u>(15,650)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers From Other Funds	83,964		300,000	
Transfers To Other Funds	(313,997)	(73,335)	(10,629)	13,997
Financing Obligation Proceeds				8,046
Total Other Financing Sources (Uses)	<u>(230,033)</u>	<u>(73,335)</u>	<u>289,371</u>	<u>22,043</u>
Net Change in Fund Balances	26,503	(312,949)	(5,592)	6,393
Fund Balances - Beginning	<u>338,857</u>	<u>438,644</u>	<u>26,763</u>	<u>15,450</u>
Fund Balances - Ending	<u>\$ 365,360</u>	<u>\$ 125,695</u>	<u>\$ 21,171</u>	<u>\$ 21,843</u>

The accompanying notes are an integral part of the financial statements.

**MONROE COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2006**  
**(Continued)**

<b>Total Governmental Funds</b>	
\$	899,909
	44,902
	23,849
	15,620
	2,316,768
	11,977
	219,462
	25,900
	<u>3,558,387</u>
	729,020
	574,783
	224,685
	2,801
	10,804
	1,775,452
	3,000
	82,397
	<u>449,136</u>
	<u>3,852,078</u>
	<u>(293,691)</u>
	383,964
	(383,964)
	<u>8,046</u>
	<u>8,046</u>
	(285,645)
	<u>819,714</u>
\$	<u><u>534,069</u></u>

The accompanying notes are an integral part of the financial statements.

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**MONROE COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**



**MONROE COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$	(285,645)
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	1,470,646	
Depreciation Expense	(342,207)	
Disposal of Fixed Assets, Net Book Value	(4,010)	

The issuance of debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing Obligation Proceeds	(8,046)	
Financing Obligations Principal Paid	2,967	

Change in Net Assets of Governmental Activities	\$	833,705
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**MONROE COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2006**



**MONROE COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2006**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 4,984
Total Current Assets	<u>4,984</u>
Noncurrent Assets:	
Capital Assets:	
Equipment	21,367
Less Accumulated Depreciation	<u>(1,391)</u>
Total Noncurrent Assets	<u>19,976</u>
Total Assets	<u>24,960</u>
<b>Net Assets</b>	
Invested in Capital Assets,	
Net of Related Debt	19,976
Unrestricted	<u>4,984</u>
Total Net Assets	<u>\$ 24,960</u>

The accompanying notes are an integral part of the financial statements.

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**MONROE COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**



**MONROE COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Operating Revenues</b>	
Canteen Receipts	\$ 32,714
Total Operating Revenues	<u>32,714</u>
<b>Operating Expenses</b>	
Depreciation Expense	1,391
Educational and Recreational	27,575
Equipment	<u>575</u>
Total Operating Expenses	<u>29,541</u>
Operating Income	<u>3,173</u>
Change In Net Assets	3,173
Total Net Assets - Beginning	<u>21,787</u>
Total Net Assets - Ending	<u><u>\$ 24,960</u></u>

The accompanying notes are an integral part of the financial statements.

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**MONROE COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**



**MONROE COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

	<b>Business-Type Activities - Enterprise Fund Jail Canteen Fund</b>
<b>Cash Flows From Operating Activities</b>	
Receipts From Customers	\$ 32,714
Educational and Recreational	(27,575)
Equipment	(575)
Net Cash Provided By Operating Activities	<u>4,564</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Purchase of Capital Assets	<u>(21,367)</u>
Net Cash Provided By Noncapital Financing Activities	<u>(21,367)</u>
Net Increase in Cash and Cash Equivalents	(16,803)
Cash and Cash Equivalents - July 1, 2005	<u>21,787</u>
Cash and Cash Equivalents - June 30, 2006	<u><u>\$ 4,984</u></u>
 <b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>	
Operating Income	\$ 3,173
Plus: Depreciation Expense	<u>1,391</u>
Net Cash Provided By Operating Activities	<u><u>\$ 4,564</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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**MONROE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements. However, financial statements of Monroe County Recreation, Tourist, and Convention Commission, a discretely presented component unit, are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Monroe County include the funds, agencies, boards, and entities for which the fiscal court (primary government) is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

**MONROE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Blended Component Unit

Monroe County Fire and Rescue Squad

On March 22, 1995, the Monroe County Fiscal Court (Fiscal Court) created the Monroe County Fire and Rescue Squad, Inc. (Fire and Rescue Squad) to respond to emergency situations. The Fire and Rescue Squad is run by four officers (chief, assistant chief, and two captains) who are elected every two years by members of the Fire and Rescue Squad. However, the four officers have to answer to Fiscal Court. The Fire and Rescue Squad bills and collects a fee for its fire runs. However, this money is turned directly over to the Fiscal Court. The Fiscal Court reimburses the monthly expenses of the Fire and Rescue Squad. In fiscal year 2006, the Fire and Rescue Squad received \$13,997 from Fiscal Court. The Fire and Rescue Squad is fiscally dependent upon the Fiscal Court and the Fiscal Court can impose its will on the entity. Financial information for the Fire and Rescue Squad is blended with Monroe County's financial statements.

Discretely Presented Component Unit

The component unit's column in the government-wide financial statements includes the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organization's separateness from the fiscal court's primary government.

Monroe County Recreation, Tourist, and Convention Commission

On January 16, 2002, Monroe County Fiscal Court (Fiscal Court) established the Monroe County Recreation, Tourist, and Convention Commission (Commission) pursuant to KRS 91A.350(2) for the purpose of promoting tourism and convention activity in Monroe County. The Commission is composed of seven members appointed by the Monroe County Judge/Executive with the approval of the Fiscal Court. Five members are appointed by the County Judge/Executive from lists submitted by third parties. Two members are appointed at-large by the County Judge/Executive. The Commission's governing body is substantially different from the Fiscal Court. However, the Commission is fiscally dependent on the Fiscal Court because the Fiscal Court controls its major source of revenue. The Commission's major source of revenue is the transient room tax. On January 16, 2002, the Fiscal Court enacted an ordinance imposing a transient room tax. The Fiscal Court currently collects "3% of the gross rent for every occupancy of a suite, room or rooms charged and collected." The Fiscal Court is to issue monthly checks to the Commission. This fiscal dependency requires the Fiscal Court to include the Commission as a component unit. The Commission is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court. Financial information for the Commission is discretely presented in the accompanying financial statements.

Audited financial statements for the Monroe County Recreation, Tourist, and Convention Commission, a discretely presented component unit, may be requested by contacting the Monroe County Recreation, Tourist, and Convention Commission, 202 North Magnolia Street, Tompkinsville, KY 42167.

**MONROE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Kentucky law provides for election of the officials below from the geographic area constituting Monroe County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Monroe County, Kentucky.

Additional Monroe County Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**C. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

**MONROE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Government-wide and Fund Financial Statements (Continued)**

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Grants Fund, and Monroe County Fire and Rescue Squad Fund.

**Special Revenue Funds:**

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Grants Fund, and Monroe County Fire and Rescue Squad Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.



**MONROE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Government-wide and Fund Financial Statements (Continued)**

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**D. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**E. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

**MONROE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Capital Assets (Continued)**

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

**F. Long-term Obligations**

In the government-wide financial statements and proprietary fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**G. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**MONROE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**I. Related Organization**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Monroe County Fiscal Court: Monroe County Water District, Fountain Run Water District, and Monroe County Ambulance Taxing District. The fiscal court's accountability for these organizations, however, does not extend beyond making the appointments.

**Note 2. Deposits**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**MONROE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<b><u>Governmental Activities:</u></b>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 39,200	\$	\$	\$ 39,200
Total Capital Assets Not Being Depreciated	39,200			39,200
Capital Assets, Being Depreciated:				
Buildings	2,492,186			2,492,186
Other Equipment	551,774	113,210		664,984
Vehicles and Equipment	398,715	25,100	(5,300)	418,515
Infrastructure	1,472,418	1,332,336		2,804,754
Total Capital Assets Being Depreciated	4,915,093	1,470,646	(5,300)	6,380,439
Less Accumulated Depreciation For:				
Buildings	(1,084,851)	(47,158)		(1,132,009)
Other Equipment	(354,641)	(54,948)		(409,589)
Vehicles and Equipment	(191,263)	(22,983)	1,290	(212,956)
Infrastructure	(143,582)	(217,118)		(360,700)
Total Accumulated Depreciation	(1,774,337)	(342,207)	1,290	(2,115,254)
Total Capital Assets, Being Depreciated, Net	3,140,756	1,128,439	(4,010)	4,265,185
Government Activities Capital Assets, Net	\$ 3,179,956	\$ 1,128,439	\$ (4,010)	\$ 4,304,385
<b><u>Business-Type Activities:</u></b>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment		\$ 21,367		\$ 21,367
Total Capital Assets Being Depreciated		21,367		21,367
Less Accumulated Depreciation For:				
Vehicles and Equipment		(1,391)		(1,391)
Total Accumulated Depreciation		(1,391)		(1,391)
Total Capital Assets, Being Depreciated, Net		19,976		19,976
Business-Type Activities Capital Assets, Net	\$ 0	\$ 19,976	\$ 0	\$ 19,976

**Note 3. Capital Assets (Continued)**

**MONROE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 48,112
Protection to Persons and Property	25,991
Social Services	4,756
Roads, Including Depreciation of General Infrastructure Assets	<u>263,348</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 342,207</u>

Business-Type Activities

Jail Canteen	<u>\$ 1,391</u>
Total Depreciation Expense - Business Activities	<u>\$ 1,391</u>

**Note 4. Short-term Debt**

**A. Monroe County Fire and Rescue Squad, Inc.**

On December 23, 2005, the Monroe County Fire and Rescue Squad, Inc. entered into a promissory note with Edmonton State Bank. The note was for the purchase of a 1999 Chevrolet truck. The principal was \$8,046 with an initial interest rate of 8.75%. Principal outstanding as of June 30, 2006 was \$8,046. Future principal requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 8,046	8.75% - 20%

**B. Changes In Short-term Liabilities**

Debt activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Financing Obligations	\$ 2,967	\$ 8,046	\$ 2,967	\$ 8,046	\$ 8,046
Governmental Short-term Liabilities	<u>\$ 2,967</u>	<u>\$ 8,046</u>	<u>\$ 2,967</u>	<u>\$ 8,046</u>	<u>\$ 8,046</u>

**Note 5. Interest On Financing Obligation**

**MONROE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

Protection to Persons and Property on the Statement of Activities includes \$167 in interest on a financing obligation.

**Note 6. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefit to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 7. Insurance**

For the fiscal year ended June 30, 2006, Monroe County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 8. Prior Period Adjustment**

The beginning net assets of governmental activities were restated by \$44,999 due to capital assets omitted in the prior year.

**MONROE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**





**MONROE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2006**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 759,500	\$ 759,500	\$ 899,909	\$ 140,409
In Lieu Tax Payments	33,000	33,000	44,902	11,902
Excess Fees	25,000	25,000	23,849	(1,151)
Licenses and Permits	14,200	14,200	15,620	1,420
Intergovernmental	342,937	676,756	562,344	(114,412)
Charges for Services	2,000	2,000	2,450	450
Miscellaneous	15,000	165,000	161,754	(3,246)
Interest	10,000	10,000	9,892	(108)
Total Revenues	<u>1,201,637</u>	<u>1,685,456</u>	<u>1,720,720</u>	<u>35,264</u>
<b>EXPENDITURES</b>				
General Government	708,042	751,887	718,020	33,867
Protection to Persons and Property	121,320	154,156	135,155	19,001
General Health and Sanitation	61,573	386,456	224,685	161,771
Social Services	5,500	5,500	2,801	2,699
Recreation and Culture	12,500	14,500	10,804	3,696
Airports	3,000	3,000	3,000	
Administration	373,666	453,921	369,719	84,202
Total Expenditures	<u>1,285,601</u>	<u>1,769,420</u>	<u>1,464,184</u>	<u>305,236</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(83,964)</u>	<u>(83,964)</u>	<u>256,536</u>	<u>340,500</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	73,335	73,335	83,964	10,629
Transfers To Other Funds	<u>(289,371)</u>	<u>(289,371)</u>	<u>(313,997)</u>	<u>(24,626)</u>
Total Other Financing Sources (Uses)	<u>(216,036)</u>	<u>(216,036)</u>	<u>(230,033)</u>	<u>(13,997)</u>
Net Changes in Fund Balance	(300,000)	(300,000)	26,503	326,503
Fund Balance - Beginning	<u>300,000</u>	<u>300,000</u>	<u>338,857</u>	<u>38,857</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 365,360</u>	<u>\$ 365,360</u>

**MONROE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**  
**(Continued)**

<b>ROAD FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental	\$ 1,267,318	\$ 1,572,090	\$ 1,622,806	\$ 50,716
Miscellaneous	21,626	21,626	24,128	2,502
Interest	5,000	5,000	14,481	9,481
Total Revenues	1,293,944	1,598,716	1,661,415	62,699
<b>EXPENDITURES</b>				
Roads	1,158,509	1,829,311	1,775,452	53,859
Capital Projects		82,397	82,397	
Administration	62,100	52,317	43,180	9,137
Total Expenditures	1,220,609	1,964,025	1,901,029	62,996
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	73,335	(365,309)	(239,614)	125,695
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	(73,335)	(73,335)	(73,335)	
Total Other Financing Sources (Uses)	(73,335)	(73,335)	(73,335)	
Net Changes in Fund Balance		(438,644)	(312,949)	125,695
Fund Balance - Beginning		438,644	438,644	
Fund Balance - Ending	\$ 0	\$ 0	\$ 125,695	\$ 125,695

**MONROE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**  
**(Continued)**

	<b>JAIL FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental	\$ 66,400	\$ 95,518	\$ 108,296	\$ 12,778
Charges for Services	4,200	5,661	9,527	3,866
Miscellaneous	2,000	6,041	7,606	1,565
Interest	500	972	1,294	322
Total Revenues	73,100	108,192	126,723	18,531
<b>EXPENDITURES</b>				
Protection to Persons and Property	328,321	387,880	385,449	2,431
Administration	34,150	36,446	36,237	209
Total Expenditures	362,471	424,326	421,686	2,640
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(289,371)	(316,134)	(294,963)	21,171
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	289,371	289,371	300,000	10,629
Transfers To Other Funds			(10,629)	(10,629)
Total Other Financing Sources (Uses)	289,371	289,371	289,371	
Net Changes in Fund Balance		(26,763)	(5,592)	21,171
Fund Balance - Beginning		26,763	26,763	
Fund Balance - Ending	\$ 0	\$ 0	\$ 21,171	\$ 21,171

**MONROE COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2006**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**MONROE COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2006**



**MONROE COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2006**

	<b>Local Government Economic Assistance Fund</b>	<b>Monroe County Fire And Rescue Squad Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 7,838	\$ 14,005	\$ 21,843
Total Assets	<u>\$ 7,838</u>	<u>\$ 14,005</u>	<u>\$ 21,843</u>
<b>FUND BALANCES</b>			
Unreserved:			
Special Revenue Funds	\$ 7,838	\$ 14,005	\$ 21,843
Total Fund Balances	<u>\$ 7,838</u>	<u>\$ 14,005</u>	<u>\$ 21,843</u>

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**MONROE COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2006**



**MONROE COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2006**

	<b>Local Government Economic Assistance Fund</b>	<b>Grants Fund</b>	<b>Monroe County Fire And Rescue Squad Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>				
Intergovernmental	\$ 12,518	\$ 10,804		\$ 23,322
Miscellaneous			25,974	25,974
Interest	233			233
Total Revenues	<u>12,751</u>	<u>10,804</u>	<u>25,974</u>	<u>49,529</u>
<b>EXPENDITURES</b>				
General Government	11,000			11,000
Protection to Persons and Property		10,804	43,375	54,179
Total Expenditures	<u>11,000</u>	<u>10,804</u>	<u>43,375</u>	<u>65,179</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,751</u>		<u>(17,401)</u>	<u>(15,650)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds			13,997	13,997
Financing Obligation Proceeds			8,046	8,046
Total Other Financing Sources			<u>22,043</u>	<u>22,043</u>
Net Change in Fund Balances	1,751		4,642	6,393
Fund Balances - Beginning	<u>6,087</u>		<u>9,363</u>	<u>15,450</u>
Fund Balances - Ending	<u><u>\$ 7,838</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 14,005</u></u>	<u><u>\$ 21,843</u></u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



**ROSS & COMPANY, PLLC**  
**Certified Public Accountants**  
**800 Envoy Circle**  
**Louisville, KY 40299**  
**Telephone (502) 499-9088**  
**Facsimile (502) 499-9132**  
**www.rosscpas.com**

The Honorable Wilbur Graves, Monroe County Judge/Executive  
Members of the Monroe County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Monroe County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 21, 2007. We did not audit the financial statements of the Monroe County Recreation, Tourist, and Convention Commission. Other auditors whose report has been furnished to us audited those financial statements. Monroe County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Monroe County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Monroe County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying comments and recommendations as items: 2006-01 and 2006-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2006-01 to be a material weakness.

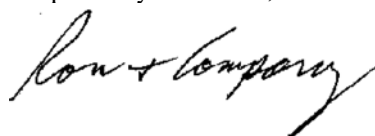
Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Monroe County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2006-03.

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC  
Certified Public Accountants

June 21, 2007



**MONROE COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2006**



**MONROE COUNTY  
COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2006**

INTERNAL CONTROL OVER FINANCIAL REPORTING – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

**Reference Number 2006-01**

The Fiscal Court Should Improve Purchase and Procurement Procedures

During testing of expenditures, auditors noted non-compliances with purchase requests. The County does not maintain an adequate purchase order system. It was noted that purchase orders are not always issued when required and are not cancelled when fulfilled.

The following are guidelines as prescribed by the State Local Finance Officer:

- Purchases shall not be made without approval by the judge/executive (or designee), and/or a department head.
- Purchase requests shall indicate the proper appropriation account number to which the claim will be posted.
- Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.
- Each department head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the Department Head and the judge/executive or designee who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.

We also noted 10% of the expenditures tested did not have the original supporting documentation. In addition, 2% of the expenditures tested were not paid within 30 days. KRS 65.140(2) states, "All bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice."

Good internal controls dictate that adequate original supporting documentation be maintained for all receipts and disbursements. All original invoices should be maintained, agreed to the corresponding purchase order, and canceled upon payment. Copies are not acceptable.

Lack of proper accounting practices and internal control increase the risk that misstatements of financial activity and/or fraud will occur and go undetected by the fiscal court. Without proper procedures in place to mitigate this risk, the fiscal court is exposing public resources to potential misstatements and/or fraud.

We recommend the fiscal court maintain all original invoices and ensure that all purchase orders are issued and signed. Also, invoices should be agreed to purchase orders and discrepancies should be investigated and resolved.

*County Judge/Executive Wilbur Grave's Response: No response.*

**MONROE COUNTY  
COMMENTS AND RECOMMENDATIONS  
FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**INTERNAL CONTROL OVER FINANCIAL REPORTING – REPORTABLE CONDITION:**

**Reference Number 2006-02**

**The Fiscal Court Should Properly Report Encumbrances**

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The State Local Finance Officer requires encumbrances to be reported on the first page of the quarterly financial report that is filed with the Governor's Office for Local Development. An encumbrance is the amount of unpaid purchase orders from the purchase order journal. During fiscal year 2006, the county treasurer estimated the amount of encumbrances instead of using actual amounts. We recommend the county treasurer to determine the actual amount of encumbrances based on invoices unpaid as of year-end (June 30), and outstanding purchase orders as of June 30.

*County Judge/Executive Wilbur Grave's Response: No response.*

**COMPLIANCE AND OTHER MATTERS:**

**Reference Number 2006-03**

**The Fiscal Court Should Annually Review The Administrative Code And Make Any Changes Or Revisions Deemed Necessary**

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KRS 68.005 states the Fiscal Court should review the Administrative Code annually before the end of the fiscal year. We recommend that the Fiscal Court review the Administrative Code and make necessary changes and modifications as appropriate. The review of the Administrative Code and Ethics Code should be reflected in the minutes of the Fiscal Court.

*County Judge/Executive Wilbur Grave's Response: Made changes at June 2007 meeting.*

**PRIOR YEAR AUDIT FINDINGS:**

None.

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**MONROE COUNTY FISCAL COURT**

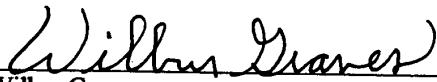
**For The Fiscal Year Ended  
June 30, 2006**




CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
MONROE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2006

The Monroe County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Wilbur Graves  
Monroe County Judge/Executive

  
\_\_\_\_\_  
Sheryl Conkin  
Monroe County Treasurer

